

CORPORATE GOVERNANCE IN BALCO

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ABSTRACT

BALCO is currently a Swedish limited company listed on Nasdaq Stockholm in the Small Cap segment. Corporate governance in Balco, which can be divided into external and internal governance instruments, complies with Swedish law, Nasdaq Stockholm's Rule Book for Issuers, the Swedish Corporate Governance Code (the "Code") as well as internal rules and regulations.

Keywords: *Corporate Governance, Balco, Aluminium, Indian, Swedish, Nasdaq.*

Introduction

Bharat Aluminium Company (BALCO) Ltd is a Vedanta Enterprise. BALCO has made significant contributions as the 1st PSU in India's aluminium sector. Incorporated in 1965, BALCO is India's first integrated aluminium business based in Chhattisgarh. It has captive Bauxite mines in Mainpat and Kawardha, and captive coal mines in Chotia, along with 2010 MW power generation capacity and 5.75 LTPA aluminium smelting capacity at Korba Complex. BALCO produces wire rods, ingots, alloy rods, alloy ingots and rolled products. BALCO also sells power.

In 2001 Govt. of India disinvested 51% shares of Bharat Aluminium Company Limited (BALCO) to Sterlite Industries Limited a subsidiary of Vedanta Limited. Remaining 49% remained with Gol.

Governance Model

Balco Group AB, company registration number 556821-2319 (Balco), is currently a Swedish limited company listed on Nasdaq Stockholm in the Small Cap segment. The Company's head office is located in Växjö. The corporate governance report constitutes a part of the Company's administration report. Corporate governance in Balco, which can be divided into external and internal governance instruments, complies with Swedish law, Nasdaq Stockholm's Rule Book for Issuers, the Swedish Corporate Governance Code (the "Code") as well as internal rules and regulations.

External Governance Instruments

The external governance instruments constitute the framework for corporate governance in Balco. The external instruments include the Swedish Companies Act, the Swedish Annual Accounts Act, Nasdaq Stockholm's Rule Book for Issuers and the Swedish Corporate Governance Code. With respect to the 2019 financial year, Balco deviates from the Code as regards one rule:

- **Deviation from rule 9:7 of the Code:** The Code stipulates that the vesting period for share and shareprice related incentive programs shall be not less than three years. The two-year term for the series 1 warrants program constitutes a deviation from the Code. This series expired in September/October 2019.
- **Explanation:** Balco's incentive program comprises two series, of which series 1 has a term of two years and series 2 a term of three years. Series 1 accounted for a smaller part (only 25 percent) of the total program. The Board and management have made the assessment that the smaller program, with a two-year term, constituted an important complement to the three-year program in order to attract and encourage broad share ownership among senior executives, and to continue to retain and attract employees.

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Internal Governance Instruments

The internal governance instruments include the articles of association adopted at the general meeting, internal rules and guidelines. Examples of internal rules and guidelines include the Board's rules of procedure, instructions to committees and the instruction to the CEO. In addition, the Board has adopted a number of policies, including finance policy and sustainability policy, which serve as guidance as to how the internal work is governed and controlled. In addition, Balco's accounting handbook governs financial reporting in the Group.

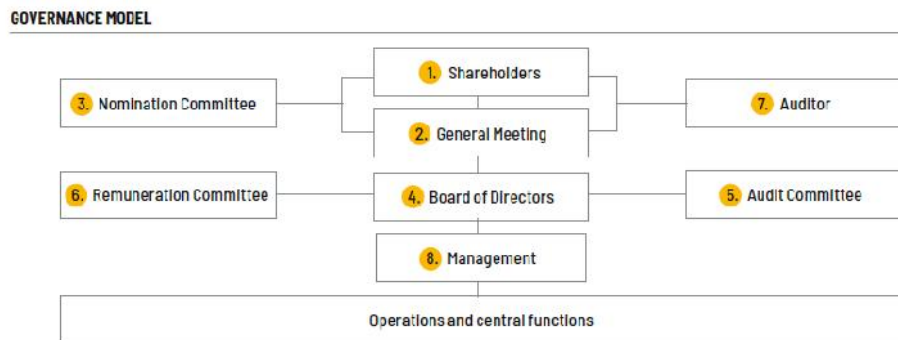


Fig. 1: Governance Model of BALCO

Diversity Policy in the Board of Directors

Balco's Board shall, as a whole, possess requisite skills, experience and background for the conducted business and for identifying and understanding the risks to which the business is exposed. The objective is that the Board shall comprise members of varying ages, be represented by both men and women with varied geographic and ethnic backgrounds that complement each other in terms of experience, educational and professional background and who together contribute to the Board's independence and critical questioning approach. Balco's Board has adopted a diversity policy which the Nomination Committee takes into account when producing its proposals for the AGM. The Nomination Committee also proceeds based on rule 4.1 of the Swedish Corporate Governance Code, which addresses board diversity.

Internal Control of Financial Reporting

According to the Companies Act and the Swedish Corporate Governance Code, the Board of Directors is ultimately responsible for ensuring that the Company's organization is structured in such a manner that financial reporting, management and operations are satisfactorily monitored and controlled. The internal control report is structured in accordance with the Annual Accounts Act and the Code. The description has been limited to addressing internal control with respect to the financial reporting in accordance with rule 7.4 of the Swedish Corporate Governance Code.

The internal control structure, which was developed ahead of Balco's IPO in 2017, is based on the framework in the established COSO (Committee of Sponsoring Organizations of the Treadway Commission) model. The model's components are used to assess and work with an organization's internal governance and control linked to goals, reporting and compliance with laws and regulations.

Control Environment

The control environment constitutes the basis for the internal control regarding financial reporting. It is important that the Company's decision paths, powers and responsibilities be clearly defined and communicated between different levels in the organization. In order to create a framework for conduct of the work, Balco has implemented a number of governance documents in the form of internal policies and guidelines. Balco's Board has established a work process and adopted rules of procedure for its work and the work of the Board's committees. In addition, the Board has a number of basic policies and guidelines, such as the Board's rules of procedure, instructions to the CEO, finance policy, sustainability policy, insider policy and communication policy. Governance documents for accounting and financial reporting are particularly important areas for ensuring complete reporting and disclosure of information. Balco has an accounting handbook which is intended to achieve internal governance and control of the financial reporting. Alongside the accounting handbook, Balco has prepared a report package in respect of regular economic monitoring.

- **Risk Assessment:** Financial risk management constitutes a part of the ongoing financial reporting work. Balco endeavors to regularly analyze the risks that may lead to errors in the financial reporting. A process has been established as to how errors in the financial reporting are to be analyzed and monitored on a yearly basis. Risks are addressed, assessed and reported in Balco's central group functions.
- **Control Activities:** Balco monitors the risks that the Board considers to be of importance for the internal control. The Group's CFO is responsible for ensuring the overall control of the financial reporting. In addition to the central control with clear decision-making processes and decision routines as regards major investments, results analysis and reporting, a structure is in place comprising guidelines and role descriptions with mandate descriptions as to how the work is conducted and monitored in the organization. Guidelines and instructions are aimed at discovering and preventing the risks of errors in the reporting.

Information and Communication

Governance documents in the form of policies, guidelines and manuals, inasmuch as they relate to the financial reporting, are communicated primarily in the Group's accounting handbook and via the Company's intranet. The information is expanded and updated as needed. Communication takes place primarily on an ongoing basis in the organization, since the workgroup within the accounts function is essentially concentrated to one location. In addition, regular closing accounts meetings are held. Guidelines as to how communication with internal and external parties is to take place are described in Balco's communication policy. The policy is aimed at ensuring compliance with all disclosure obligations. Information to external stakeholders is provided on a regular basis via Balco's financial website. Internal communication largely takes place via the Company's intranet, at staff meetings and by email. Internal communication is important to ensure that all employees have a sense of belonging and participation and to ensure that everyone is working towards the same goals.

Monitoring

Balco's financial department uses in a joint accounting and reporting system and has shared instructions and guidelines. Balco's Board and management receive monthly information concerning the Group's earnings, financial position and development of the business. Based on the internal control work, the Board may choose a specific area within which additional monitoring may be required.

Conclusion

Corporate governance in Balco, which can be divided into external and internal governance instruments, complies with Swedish law, Nasdaq Stockholm's Rule Book for Issuers, the Swedish Corporate Governance Code (the "Code") as well as internal rules and regulations. The **external instruments** include the Swedish Companies Act, the Swedish Annual Accounts Act, Nasdaq Stockholm's Rule Book for Issuers and the Swedish Corporate Governance Code. The internal governance instruments include the articles of association adopted at the general meeting, internal rules and guidelines. Examples of internal rules and guidelines include the Board's rules of procedure, instructions to committees and the instruction to the CEO. From this study, it can be concluded that Balco's corporate governance model is quite systematic.

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